



REPUBLIC OF SOMALILAND

**MINISTRY OF TRADE, INDUSTRY AND
TOURISM**

Micro, Small and Medium Enterprises (MSME) Policy

2019

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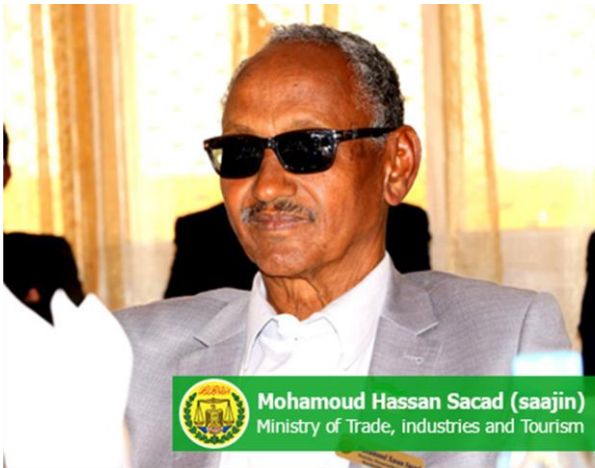
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ACRONYMS

ADR	-	Alternative Dispute Resolution
BDS	-	Business Development Services
BMOs	-	Business Membership Organisations
ESCOM	-	Economic Sector Coordination Meeting
ESPs	-	Energy Service Providers
G2B	-	Government to Business services
GDP	-	Gross Domestic Product
GoSL	-	Government of Somaliland
ICTs	-	Information and Communication technologies
MoTIT	-	Ministry of Trade, Industry and Tourism
MSMEs	-	Micro, Small and Medium Enterprises
PPD	-	Public Private Dialogue
PPP	-	Public Private Partnership
R&D	-	Research and Development
SLCCIA	-	Somaliland Chamber of Commerce, Industry and Agriculture
MDAs	-	Ministries, Departments and Agencies of Government
MoI	-	Ministry of Investment
NDP 2	-	2 nd National Development Plan (2017-2021)
OSS	-	One Stop Shop approach to government services delivery

Minister's forward



Micro, Small and Medium Enterprises intersect to all subsectors of economy and provide the largest sources of employment and wealth creation as indicated in the National Development plan II.

The development of Micro, Small, and Medium Enterprises (MSMEs) is seen as one of the sustainable ways of reducing the levels of poverty and improving the quality of life of households.

The contribution of MSMEs to economic and sustainable development is currently widely acknowledged as they are active in all segments of the economy and present opportunities for promotion of broad based equitable development. They enable active participation of marginalized groups in Somaliland's economic development including providing more opportunity for women and youth and supporting growth of disadvantaged regions of the country. In this regard, the Ministry of Trade, Industry and Tourism will develop following the approval of this policy a comprehensive implementation framework which will ensure its proper operationalization, while we will also coordinate with all concerning stakeholders for effective implementation purpose.

The role played by Government Sector Ministries, private sector and other key development partners include WBG/IFC for finalization of the policy is highly applauded.

Lastly, the unwavering commitment of officials from the Ministry of Trade, Industry and Tourism in ensuring that the policy development process comes to an end is highly commended.

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Minister of Trade Industry and Tourism
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1.0 Background

Micro, Small and Medium Enterprises (MSMEs) continue to play a key role in the growth and sustainability of Somaliland's economy. MSMEs are core to the emerging private sector in Somaliland and constitute the base for private sector led growth in the country. MSMEs play a critical role as drivers for inclusive growth and employment creation for the citizens of Somaliland and dominate Somaliland's private sector which is estimated to contribute to over 90% of the Country's Gross Domestic Product¹. MSMEs therefore have potential to drive Somaliland's future economic growth, wealth and employment creation. These enterprises offer a range of products and services across all subsectors of Somaliland's economy including: agriculture and livestock, general and wholesale trade, real estate activities and construction, forestry, education, hotel and restaurant, foods and beverages, information and communication, financial and money transfer services, transport and storage, professional services, health services, manufacturing, mining and quarrying, electricity supply, water supply, sewage and waste management and fishing and others. MSMEs are therefore active in all segments of the economy and present opportunities for promotion of broad based equitable development. They enable active participation of marginalized groups in Somaliland's economic development including providing more opportunity for women and youth and supporting growth of disadvantaged regions of the country.

1.1 Somaliland's Medium-term outlook

According to Somaliland's 2nd National Development Plan (NDP2), the Country's continued peace and stability in the restive horn of Africa region, should allow it to reap a "peace dividend" that encourage further investment and, consequently, economic growth. There are signs that Somaliland's continued peace and stability continues to be a factor in mobilising

¹ Professor Eid Ali Ahmed, Professor Alison Brown; Dr. Peter Mackie; Kate Dickenson, *Economic Recovery in Post-Conflict cities: the The Informal Economy in Civil War:Hargeisa - Somaliland*, page (35) funded under the DFID-ESRC *Joint Fund for Poverty Alleviation Research* (Project ES-M008789-1). Cardiff and Gollis Universities 2017

domestic investment and attracting additional investment from abroad – including diaspora investment in-flows. The continue heavy flow of investments and resources transfer from the diaspora and other foreign sources attests to the benefits of the Country’s continued peace and stability. Diaspora investments have been particularly important in reviving the economy and bringing innovation to sectors such as real estate, construction, education, health and services. Private investment has also been forthcoming from other sources with the Berbera Port concession as the most prominent example. In 2016, Somaliland and Dubai Ports World agreed on a \$442 million-deal, which has granted the port operator a 30-year concession to manage and develop Berbera Port. The investments have provided an immediate boost to growth and the port’s increased capacity should encourage further investment and trade in future years. Nevertheless, Somaliland continues to face significant challenges including those occasioned by climate change. Frequent droughts and floods faced by the country continue to have negative impacts on the fragile economy and the after effects have long term implications for society and the economy. Somaliland’s overreliance on livestock exports poses significant risks, associated with a mono-economy, and the country will be susceptible to major economic shocks without export and production diversification. In addition, the rise in food insecurity and malnutrition associated with droughts will increase poverty and damage human capital, further limiting growth in the MSME sector and other sectors of the economy.

1.2 Somaliland’s Long-term Outlook

According to Somaliland’s Vision 2030 and the 2nd National Development Plan (2017-2021), the country’s susceptibility to climate change shocks poses long term risks to the Country’s traditional economy dominated by the livestock industry. The country therefore needs to leverage its MSMEs to drive economic diversification with a focus on value addition for exports, import substitution, provision of services to other countries in the region, and others to achieve long-term growth.

The importance of human capital as the foundation for Somaliland’s sustainable long-term development cannot be underestimated. Economic growth cannot be sustained without higher levels of human capital and increasing human capital requires long-term sustained investments in, for example, health and education provision. The MSME sector and other sectors of the

economy will increasingly require a highly educated and skilled work force in order enhance their competitiveness and productivity and to deliver value added products and services to both local and export markets.

1.3 Policy Data collection Methods

“Due to the lack of data on MSME’s, it is important to note that this policy is largely based on qualitative evidence and so should be taken caution. The lack of data has meant the policy has had to largely rely on qualitative evidence gathered during stakeholder consultation meetings such as Economic Sector Coordination Meeting (ESCOM) and Somaliland’s Public Private Dialogue platforms (PPD). Nevertheless, whilst it was not possible to collect primary data for this exercise, this policy document makes a conscious effort to utilize any secondary data, particularly those made available by the Ministry of Planning and National Development and Ministry of Trade Industry and Tourism.

Whilst the lack of data presented in this policy document is contrary to evidence based policy making, the MSME policy is intended to serve as a guiding document, which will be revisited and updated as an when more data becomes available.

1.4 Role of the Informal Economy

Government is keen to implement reforms that reduce marginalization of informal workers and accelerate appropriate transformation of the informal economy into a well-regulated and facilitated formal economy. Accelerated enterprise formalization, in the context of the MSME policy, will be critical to growth of Somaliland’s formal sector and creation of quality employment for the citizens of Somaliland. The majority of MSMEs that dominate Somaliland’s private sector are informal in nature. While many small and medium enterprises are active in the services sector, the bulk of microenterprises, which are informal in nature, are involved in trade. It is estimated that the informal economy in Hargeisa city provides about 77% of the city’s total

employment. Most of the informal enterprises are indigenously owned and family run². Prospects for growth and formalization of enterprises are constrained by: absence of sound legislative frameworks; inadequate infrastructure; limited access to finance, inadequate infrastructure and work places and others.

It is also important to note that workers in the informal economy lack training and skills which negatively impacts their productivity and capacity to meaningfully contribute to growth of their enterprises and Somaliland's economy. Other challenges faced by operators and workers in the informal economy include: limited business opportunities, lack of inclusion in formulation and implementation of government policies that affect informal enterprises, high-cost and lack of access to finance, illiteracy and lack of business skills among informal economy operators and limited access to infrastructure and operating space and others.

The MSME policy provides the Ministry of Trade, Industry and Tourism, local governments and other MDAs and stakeholder a significant opportunity to work collectively to address challenges faced by the informal economy by: providing facilitation, handholding and other support, combating corruption and establishing credible legal framework that contributes to lowering the cost of doing business for all enterprises including operators in the informal economy. There are number of specified protection mechanisms that could dilute the challenges including: policy inclusion, support for emergence of strong Business Membership Organisations (BMOs), increased literacy and business training, improved infrastructure and operating spaces, and sound regulatory framework.

1.5 Role of Micro, Small and Medium Enterprises in Economic Development

The Somaliland's constitution recognizes key role of the private sector, including MSMEs, in national development. In addition to this, Somaliland's Vision 2030 recognizes the vital role of the private sector (for which MSMEs are an integral part) and notes that: "*Somaliland seeks to*

² Professor Eid Ali Ahmed, Professor Alison Brown; Dr. Peter Mackie; Kate Dickenson, Economic Recovery in Post-Conflict cities: the Informal Economy in Civil War: Hargeisa - Somaliland, page (5), Cardiff and Gollis Universities 2017

create a well-developed private sector that provides investment, employment, sustained livelihoods and vital services to strengthen the economic foundation of peace” (Somaliland Vision 2030). The 2nd National Development Plan (2017-2021) also places emphasis on role of private sector and MSMEs in equitable development. Formulation of the MSME policy is anchored in these higher-level frameworks and has benefited from inclusive stakeholder consultations enabled by the Somaliland’s Public Private Dialogue (PPD) process. Consultations were, among other initiatives, enabled by the Economic Sector Coordination Meetings (ESCOM), facilitated by the Ministry of Trade, Industry and Tourism, which registered strong public and private sector demand for the policy. Somaliland’s MSMEs policy seeks to underpin a sound regulatory framework for MSMEs including a fair and well-balanced governance framework that not only allows for the continuing existence of these businesses, but also regulates and maintain the necessary order for future businesses in respect with how they interact with the public.

1.6 Definition of Micro, Small and Medium Scale Enterprises

It is necessary to define MSMEs to provide an instrument for targeting the policy and to provide information and statistics on MSMEs for purposes of national planning. Definition of Micro, Small and Medium Scale Enterprises should be revised on a periodic basis depending on the changing business environment, economic context and circumstances. MSMEs constitute a diverse and heterogeneous group and different countries use different definitions for MSMEs based on their level of development. The commonly used yardsticks are total number of employees, annual sales turnover and total investment.

In Somaliland and for purposes of this policy, Micro, Small and Medium Scale Enterprises include all those enterprises that employ less than 100 people and have sales turnover or total assets of less than USD 500,000. Accordingly, a ‘Micro Enterprise’ is an enterprise employing up to 4 people with annual sales turnover or total assets not exceeding USD 5,000. A ‘Small Enterprise’ may be defined as a firm that employs between 5-20 people and with annual sales or total assets between USD 5,000 and USD 50,000. A ‘Medium scale Enterprise’ employs between 21 and 100 and may generate annual sales or have total assets between USD 50,000 and USD

500,000. All enterprises with annual sales exceeding USD 500,000 and employing over 100 people are considered to be large enterprises.

MSMEs definitions are outlined in Table 1 below.

Definition of MSMEs

Enterprise	Number of employees	Annual sales/ turnover or total assets
Micro Enterprises	1-4	Up to USD 5000
Small Enterprises	5-20	Between USD 5,000 - 50,000
Medium Enterprises	21-100	Between USD 50,000 – 500,000
Large Enterprises	Over 100	Over USD 500,000

Where there is a conflict in the classification between employment and Assets criteria (For instance, if the employees are 7 and the enterprise’s turnover is less than \$5000, we’ll employ asset-based/ sales classification which prioritizes the amount of investment put in the enterprise and revenue generated. Hence, the enterprise will be regarded as micro level)

Micro, Small and Medium Scale Enterprises in Somaliland offer a range of products and services varying from fruits and vegetables, clothing and beauty salons, to coffee shops and travel arrangement services and others. As these examples should make obvious, these are clearly businesses and institutions that affect everyone’s day to day well-being and interactions. Development of a vibrant MSME sector requires a fair and well-balanced system of regulatory governance that enables efficient formation, growth and sustainability of these businesses.

1.6 Contribution of MSMEs to Somaliland’s Economic Growth

Somaliland’s peace and stability has been a boon to MSMEs operating in the country. MSMEs continue to take advantage of the Country’s ‘peace dividend’ to boost their activities including investments in diverse sectors of the economy. Somaliland’s GDP in 2016 was estimated at **\$2,322.0** million. Somaliland’s GDP per capita stood at \$626³ and is considered one of the

³ CSD, *Ministry of National Planning and Development, Somaliland in figure, 2016 (P, 17)*

lowest in the world.⁴ Somaliland’s economy is dominated by low-productivity sectors with livestock and retail trade making up over 50% of GDP⁵. Livestock has been traditionally the backbone of Somaliland’s economy contributing with 28.4% of its GDP. The wholesale and retail trade (21.9%), real estate activities (7.6%) and crops (7.0%) are other important sectors. On the other hand, sectors that are key for economic growth such as energy (1.0%) and finance (0.3%) have meagre participation⁶.

The MSME sector in Somaliland is considered the biggest source of income and employment for the Country’s population of 3.5 million. It is also recognized that MSMEs have made a significant contribution to post independence war recovery and remains a core element in the country’s private sector driven economy. MSMEs dominate key sectors including, livestock, trade, real estate and construction, agricultural production, and others as identified in table 2 below. Unfortunately, lack of data and statistics makes it difficult to determine MSME’s contribution to employment and GDP.

Selected Sectors and their contribution to GDP

Sector	Contribution to GDP
Livestock	28%
Whole sale and retail trade; motor vehicle repair	21.9%
Real estate activities & Construction	8.8 %
Agriculture, crop production	7.0 %
Forestry	4.6 %
Education	3.3 %
Other	26.4 %

Source: Ministry of Planning and National Development, 2015 figures

⁵ CSD, Ministry of National Planning and Development, Somaliland in figure, 2015 (P,8)

⁶ CSD, Ministry of National Planning and Development, Somaliland in figure, 2015 (P,8)

In the context of an increasingly integrated regional and global economy, the role of MSMEs in production of goods and services and enhancing Somaliland's competitiveness cannot be underestimated. The strategic role MSMEs continue playing in the growth and development of Somaliland's economy provides a strong justification for development and implementation of an MSME policy.

1.7 Challenges Facing Micro, Small and Medium Scale Enterprises

Despite the positive outlook for MSMEs, many challenges facing Somaliland's economy continue to impact their activities and need to be urgently addressed. Impact of climate change resulting in drought conditions continue to impact MSMEs, especially those in livestock, crop production and marketing and other key sectors. Ban of livestock exports by Saudi Arabia has exposed the economy's vulnerability and impacted many MSMEs engaged in the livestock value chain. Efficiency and productivity of MSMEs continues to be impacted by the low human capital in the country. Major challenges facing MSMEs include: inadequate access to affordable business finance; infrastructure that opens access to information and markets including transportation, market facilities and communication infrastructure, inadequate access to affordable and reliable energy, including electricity; absence of contractual enforcement & property rights; high transportation costs; inadequate and unreliable supplies of raw material supplies; shortage of skilled labor force; unfavorable macro-economic environment including instability in exchange rates and inflation; lack of business development and support services, Government procurement procedures that discourage successful bidding by MSMEs, zoning regulations that restrict MSME operations and entry into high income markets, labour market rigidities that make hiring and firing workers difficult and expensive and limit the flexibility and mobility of the labour force, official and unofficial levies that discourage MSMEs from growing and becoming formal, the legal and regulatory framework for commercial transactions and resolution of disputes that can impact transactions with unknown firms, absence of laws governing protection of business and intellectual property and the use of property as collateral, tax structures that may distort incentives and discriminate against MSMEs others. The critical nature of the MSME sector and the many challenges it faces provides the rationale for Government of Somaliland to put in place support

mechanisms and necessary interventions in support of accelerated MSME development. The MSME policy framework will support improvements the business environment and investment climate and will facilitate formalization of informal enterprises and promotion of high potential MSMEs. The policy will also enable micro enterprises to grow into small enterprises which will in turn transform into medium enterprises and large regionally and globally competitive enterprises in due course.

2.0 MSME Policy: Guiding Principles

- Access of key MSME stakeholders, across all sectors of the economy, to Government through Somaliland's Public Private Dialogue (PPD) platforms.
- Support for development of an inclusive economy that benefits all citizens of Somaliland.
- Creating full and fair opportunity for all, including marginalised groups and disadvantaged regions of the country.
- Appropriate formalisation of the large informal sector leading to a well facilitated and supported formal economy that provides quality employment for the citizens of Somaliland.
- Support for development and creation of an open market and competitive MSME sector and economy.

3.0 Fundamentals of National Policy on MSMEs

3.1 Vision of MSME Policy

A vibrant and dynamic MSME sector that is competitive, innovative, technology driven, environmentally sensitive and contributing to sustainable national development and elimination of poverty.

The policy vision aligns with Somaliland’s Vision 2030 which is *“A Stable, Democratic and Prosperous Country Where People Enjoy a High Quality of Life”*.

It also aligns with the second Somaliland National Development Plan (2017-2021) goal which is to *“Reduce poverty through increased economic opportunities and coordinated investment in youth, services, production and infrastructure”*.

3.2 Mission of MSME Policy

The mission of the MSME policy is to catalyze business and enterprise growth, through creation of an enabling business environment, appropriate formalization, facilitation of technology transfer, enhanced support infrastructure, entrepreneurship and skills development, better access to finance, market facilitation and research & development.

3.3 MSME Policy Objectives

The overall objective of this policy is to support creation of new MSMEs, facilitate formalization of informal enterprise and to nurture and strengthen existing enterprises to ensure realization of their full potential. The policy identifies businesses classified as micro, small and medium sized enterprises and creates guidelines and interventions to support their growth. The policy seeks to enhance business formalization and enterprise growth and ensures fairness between the interactions of businesses and consumers.

The policy recognizes that MSMEs require varied services, institutions and delivery mechanisms than large firms. Government of Somaliland will accelerate development of markets for MSMEs by promoting innovation and strengthening institutional capacity. The policy also seeks to enhance MSME competitiveness, enabling access to government support and procurements, and encourages greater participation of women, youth and other marginalized groups in the economy through establishment, management and ownership of MSMEs.

However, this also comes with its own drawbacks as it has been reported that some women are deterred from entering the business world by a variety of obstacles ranging from an individual's lack of formal education and training, and also discouragement by some members of the opposite sex. Lastly, the vision for the policy is to also reduce poverty across the country's diverse regions and to foster job and wealth creation. The MSME policy will aim to achieve the following objectives:

- Support formalization of informal enterprises by streamlining and rationalizing business registration services at the Ministry of Trade, Industry and Tourism and across other MDAs, creating awareness about business opportunities and sharing information. This will enable growth of the formal economy and reduction of Somaliland's large informal sector.
- Promote potential high growth sub-sectors of the economy and sector-specific initiatives to support diversification of the economy from the current high dependence on livestock and general trade.
- Support and promote transformation of MSMEs from trade and commerce towards production, value addition and industry and utilization of local raw materials to develop high value products. Encourage production and export of value added products.
- Promote and support development of MSMEs with emphasis on value chains with high potential for quality employment creation and production for both domestic and export markets. Identify and support development of promising value chains where MSMEs are predominant; from input supply to processing and export of final products.
- Promote and facilitate MSMEs with high potential for employment creation to address the big youth employment challenge which Somaliland faces.

- Enable balanced growth of Somaliland by promoting emergence of MSMEs in all regions of the country, including disadvantaged regions of Somaliland, to ensure equitable development and to reduce urban rural imbalances.
- Encouraging emergence and growth of MSMEs that are resource efficient, innovative, competitive, technology enabled.
- Strengthen the MSME sector to ensure inclusive and regionally balanced development to create employment opportunities across all regions of Somaliland.
- Facilitate MSMEs growth through entrepreneurship development including women and youth entrepreneurship, provision of business development services, upgrading of the skills base on which MSMEs rely, enabling market access, creating production zones including special economic zones and other required infrastructure, enabling access to finance, and streamlined regulatory governance.

The MSME policy will be implemented in a way that aligns with Somaliland’s vision 2030 and the 2nd National Development Plan (2017-2021) and other overarching policy frameworks. Delivery of the MSME policy will be cognizant of the need to maintain and improve the quality of Somaliland’s natural environment. The policy will also support enhanced business environment and improved infrastructure including access to special economic zone facilities and will aim to lift and advantage marginalized groups including the youth and women.

During policy implementation, Government will provide preferential support and encourage MSMEs in sub sectors with high potential. Identification of these enterprises will be partly premised on several criteria including: potential for value addition especially based on use of local raw materials, export orientation, creation of forward and backward linkages in the economy, potential to strengthen economic activity in rural areas and to uplift disadvantaged groups and the poor, technologically driven innovative products and employment generation.

4.0 MSME Policy Strategies

4.1 Create an Enabling Environment for Growth and Sustainability of MSMEs

Overview: Government of Somaliland will improve the legislative, regulatory and institutional framework in support of MSME development. This initiative will entail effective coordination of all MDAs and institutions mandated to regulate MSME activities. It will also entail, simplification and rationalization of regulatory processes and procedures to lower transaction costs in Somaliland and enhance prospects for greater enterprise competitiveness. Government will support creation on new MSMEs, encourage business formalization and nature and strengthen existing enterprises by strengthening legislative, regulatory and institutional framework for MSMEs. A better regulatory environment for MSMEs will be achieved by enhancing quality of Government to Business (G2B) services and by easing the cost of doing business for MSMEs.

Priority challenges to be addressed: There is urgent need to address regulatory gaps by prioritizing development of the Country's nascent regulatory framework for MSMEs and enhancing capacity to regulate businesses by mandated MDAs. There is also need to enhance regulatory transparency and strengthen efficiency and effectiveness of the regulatory framework. This is expected to reduce the high transaction costs MSMEs face by streamlining regulatory procedures and processes. Further to this, there is need to ease the overall cost of doing business for MSMEs in Somaliland by implementing a range of reforms including ease of Doing Business type reforms.

Strategies identified:

- Design, formulate and implement business friendly legislation. Utilize Somaliland's PPD process to consult on, formulate and implement laws and regulations that strengthen the legal and regulatory environment for MSMEs. Enable regulatory transparency and enhanced legal governance. Eliminate expensive and time consuming regulatory requirements including some of the existing licenses and regulations. Simplify business registration and licensing procedures. Government

will also eliminate official and unofficial levies that discourage MSMEs, especially from growing and formalizing. Preferential tax treatment for MSMEs, including incentives to encourage growth of high potential MSMEs, will be initiated.

- Ensure coordinated government support for MSMEs. Improve coordination across all MDAs mandated to regulate the sector to improve overall quality of regulatory services. Encourage MDAs to coordinate establishment of MSME physical or virtual help desks. Encourage use of Stop Shop (OSS) approach in delivery of Government services to MSMEs. Leverage utilization of Information and Communication Technologies (ICTs) to deliver quality Government to Business Services (G2B) services targeted at MSMEs.
- Establish infrastructure and common facilities targeted at MSMEs including markets, industrial parks, incubation centres, Business Development Services (BDS), special economic zones and others. Ensure equitable distribution of MSME support facilities across all regions of Somaliland.
- Implement inclusive and productive Public Private Dialogue (PPD) focusing on issues relevant to SME development. Strengthen Somaliland's existing Public Private Dialogue (PPD) platforms including Economy-wide PPD, ESCOM, and others to ensure equitable representation of MSME voices. Encourage emergence of strong business representative organisations, including Chambers of Commerce and sector association that champion interests of MSMEs and ensure their effective empowerment and active participation in dialogue with Government on policies that impact their activities.
- Support development of Public Private Partnerships (PPPs) that benefit MSMEs and promote MSME-large enterprise linkage programs.
- Implement and promote Alternative Dispute Resolution (ADR) and enable better access to commercial justice for MSMEs.
- Eliminate barriers to entry and non-competitive behavior in markets where MSMEs are potentially competitive.

4.2 Entrepreneurship, Enterprise Culture and Skills Development

Overview: Government of Somaliland recognizes that human capital is a key determinant of firm growth. Government will strengthen the Country's skills base by building capacity of institutions providing training and engaged in skills development including institutions of higher learning, universities, technical and vocational training institutions. Government of Somaliland will also support, promote and facilitate entrepreneurship development with a special focus on Youth and Women. Finally, government will take measures to build and foster an enterprise culture among the population.

Challenges to be addressed: These include need to expand the country's skills base by, among others, strengthening Somaliland's institutional capacity. There is also need for promotion of entrepreneurship among MSMEs and to encourage mindset change as the basis for creation of competitive enterprises. The country needs to improve the work ethic of the labour force as the basis for encouraging greater labour productivity.

Key Strategies:

- The Ministry of Trade, Industry and Tourism will work collaboratively with relevant MDAs and education and training institutions to enhance the training and skills development programs existing in the country.
- The Ministry will also work with MDAs responsible for education and training to review and improve the Country's curriculum to strengthen skills development and entrepreneurship. It will also encourage formulation and implement interventions and initiatives geared towards providing opportunities for skills development and entrepreneurship for women and youth. Inculcate through education, training and other programs, value attitudes that are conducive to development of entrepreneurship. Introduce entrepreneurial programs in vocational and technical training and develop programs that targets selected groups, e.g. School Leavers. Embark on capacity building scheme for MSMEs and Facilitate tailor-made business training programs for start-ups as well as, strengthen existing businesses.

- Champion women in business by supporting women owned and women managed MSMEs through appropriate support and incentives schemes. Encourage and support emergence or strengthening of business membership organisations dedicated to support women in business including women entrepreneur associations. Strengthen the voice of women in existing chambers through recognition and reward schemes.
- Establish entrepreneurship program targeting both informal enterprises and newly established MSMEs and for existing enterprises.
- Support establishment and implementation of MSME business awards by the business community. The award should recognize successful enterprises in: export development and generation of foreign exchange, utilization of locally available resources, environmental protection, skills development and employment creation, technology transfer, application of ICTs and others. Promote successful MSMEs, publicize utilization of good industry practices and strategies through media and other outreach.
- Strengthen business chambers and associations. Encourage emergence of business associations at cross economy and sectoral levels to strengthen and effectively represent the interests of MSMEs regarding to skills development and entrepreneurship. Strengthen MSME support services including preparation of project reports and feasibility studies for credit facilitation, provision of technical information, advisory services, laboratory services, and quality assurance services.
- Enhance MSME awareness regarding fair trade branding and opportunities in local and international markets.
- Efforts will go towards establishing technical schools to produce skilled workers is critical. Priority will be given to the provision of appropriate training facilities to improve enterprise productivity and competitiveness by acquiring various business skills that can enable them to compete successfully in the market.

4.3 Enable Access to Finance

Overview: Somaliland’s financial sector is nascent, informal and largely unregulated. It lacks the capacity to meet the requirements of a dynamic MSME sector yet access to finance remains the biggest obstacle to enterprise competitiveness and growth identified by most businesses,

including MSMEs. Government of Somaliland and the country's central bank are yet to establish the basic building blocks of a well-regulated financial sector including a national payments system and basic laws and regulations to govern the sector. While remittances are a key source of finances for households and businesses in Somaliland⁷, Government of Somaliland will strengthen the financial sector including financial inclusion and intermediation to enable greater MSME access to affordable finance.

Challenges to be addressed: Limited access to finance – especially for business start-ups and for marginalized groups including women and youth. Need to provide MSMEs with affordable capital for development. Need to address market failures that inhibit access to a diverse range of financial and non-financial services appropriate to MSMEs. Need to lower cost of transactions among financial intermediaries thereby lowering the cost of access to finance by MSMEs.

Strategies to be Implemented

- The MSME policy will encourage broadening and deepening of Somaliland's financial sector to address MSME needs. Financial sector operators will be encouraged to offer a wider range of products that cater for MSME needs hence the need to address regulatory constraints that restrict financing options available to the business community.
- Over the medium to long term period, Government will create suitable capital markets to enable emergence of alternative funding sources. Government will also consider the establishment of a well-funded national credit guarantee fund to ease collateral requirements and to support establishment of special financing windows for MSMEs in priority sectors.
- The Ministry of Trade, Industry and Tourism will work with relevant MDAs to explore opportunities to deliver alternative financing, including possibility of establishing Commercial banking in Somaliland which provide venture funding, concessional financing schemes for youth and women, offering basic investment products for selected MSMEs in priority sectors.

⁷ Remittances are estimated at USD 500-700 million annually, equivalent to 35-70% of GDP. (Source: World Bank, 2016, *Somaliland's Private Sector at a Crossroads: Political Economy and Policy Choices for Prosperity and Job Creation*.)

- Effort will go towards strengthening capacity of lending institutions, including banks and financial agencies, to deliver finance to MSMEs. Government will also encourage financial institutions to simplify their operational procedures to ease MSME access and lower cost of finance.
- The Ministry to work with other MDAs to strengthen capacities of MSME support institutions to enable delivery of services that help unlock financing for these enterprises including Business Development Services (BDS), Chambers of Commerce, professional institutions that deliver Alternative Dispute Resolution (ADR), etc. Strengthen entrepreneurship, MSME capacity to prepare business plans, accounting and book keeping.
- Facilitate linkage between MSMEs & financial Institutions and promote improving access of MSMEs to bank financing through simplification of procedures.
- Mobilize resources and promote development of new financial institutions for financing MSMEs.
- Reduce risks associated with lending to MSMEs by putting in place appropriate laws and regulations that govern contract enforcement, collection of collateral and use of movable assets as collateral.
- Establishing a legal and regulatory framework that enables development of venture capital solutions, small equity investment and asset leasing.
- Strengthening the capacity of financial institutions to assess MSME credit worthiness cost effectively. Creating credit bureaus to improving availability of information on credit worthiness of potential borrowers and helping MSMEs to prepare business plans and financial projections.
- Government to mobilize resources and promote establishment of new financial institutions for MSME development.

4.4 MSME Market Access and Facilitation

Overview: Government of Somaliland will support MSME access local and international markets. Limited market access is one of the fundamental barriers facing MSMEs in Somaliland. Somaliland will implement market access interventions and eliminate policy biases in favor of MSMEs. Somaliland will address market failures that create cost disadvantages for MSMEs and restrict their access to bilateral markets. It is important that MSMEs are enabled to enter and compete effectively in markets – this can be partly achieved through interventions that lead to a reduction in the high fixed costs of acquiring information on foreign buyers, distribution channels, quality standards, innovative technologies, etc.

Priority challenges to be addressed: These include need to access to access important bilateral markets and market information and the need for improved product quality, branding and packaging.

Strategies identified:

- Improve institutional, legal and regulatory framework for standards, accreditation, metrology, quality management and norms. Facilitate and support MSMEs to enable them meet required market standards through information sharing, benchmarking and other forms of facilitation.
- Strengthen quality assurance infrastructure including laboratories and testing facilities. Ensure that testing services are affordable and accessible to MSMEs, including informal enterprises.
- Improve linkages between large company linkages and MSMEs and support initiatives geared towards enabling sub-contracting of MSMEs by large firms.
- Support buy local campaigns in sectors where MSMEs and participation of MSMEs in local and foreign exhibitions and trade fairs.
- Negotiate bilateral trade agreements that facilitate greater access to key markets by MSMEs. Prioritize access by MSMEs to key bilateral markets including the Ethiopian market, Eastern African markets, gulf markets and other markets

- Build and expand local markets infrastructure to ensure coverage across all regions of Somaliland; ensure equitable access to markets across all regions of the country.
- Enabling open market access and building enterprise competitiveness – including infrastructure, education and technology.
- Strengthen market facilitation agencies and market access support institutions for MSMEs.
- Give MSMEs preferential treatment in all Government procurements.

4.5 Research and Development

Overview: Research and development constitutes a core attribute of most competitive, innovative, and high growth MSMEs. Government of Somaliland recognizes the importance of research and development as a critical element in the emergence of effective modern technologies, innovations and market oriented modern designs with a view to improve product development, process development, productivity improvement and to increase the competitiveness.

Challenges to be Addressed: Government of Somaliland needs to encourage greater collaboration among businesses, research institutions and academic institutions. The collaboration will constitute the basis for greater innovation and results driven research and will engender greater MSME efficiency and competitiveness.

Key Strategies:

- Government of Somaliland will promote greater collaboration between academic and research institutions and businesses. Collaboration will be geared towards more effective research initiatives leading to, among other benefits, commercialization of products targeting both the domestic and export markets.
- Focus research on product quality improvement, preservation techniques to extend the expiry period of products. Institutionalize quality assurance and standard certification system for MSMEs.
- Provision of laboratory and testing facilities for quality assurance and to access international markets.

- Promote research to find alternative substitute raw materials to address the raw material scarcity problems.
- Increase the investment in research and development both from public and private sector through appropriate fiscal incentives.
- Establishment of Special Fund to support MSME focused Research and Development (R&D). undertake continuous investment on MSME focused R&D and provide incentives for encouraging R&D by MSMEs.
- Recognize and reward public and private enterprises in applied research and assist researchers and MSMEs to obtain international patents and commercialize them.
- Capacity building of public institutions involved in standards, accreditation, metrology, quality management and norms.

4.6 Enable Access to Business Development Services (BDS)

Overview: MSME development is constrained by lack of access and poor-quality of business development services available in Somaliland. BDS include a wide spectrum of financial and non-financial services such as: labour and management training, extension services, consultancy and counseling, marketing and information services, business linkages through subcontracting, business clusters and franchising. BDS constitute a critical element in Somaliland's MSME market support structure and underpin MSME competitiveness.

Challenges to be Addressed: BDS that are too general, supply driven - often through NGOs - and with minimal attention paid to cost control. There is limited coverage in terms of availability of BDS to MSMEs and limited impact of BDS on MSMEs is hardly done with many questioning their relevance to enterprise growth.

Key Strategies:

Government of Somaliland will promote use of BDS to support enterprise development and competitiveness. Strategies will include:

- Providing information to MSMEs on available BDS service providers in Somaliland and their service offering.

- Government will encourage competition in BDS markets to improve innovation in delivery of these services, expand access for MSMEs, improve the quality and reduce cost of BDS
- The Ministry will partner with development partners with a view to provide training and technical support to private BDS providers to improve their capacity to deliver quality services to MSMEs. Long term support to BDS providers, in selected segments of the market such as information providers, those undertaking labour and management training, and others will be prioritized.
- Embark on capacity building of business training institutions aimed at improved quality of services provided
- Improve supply and demand for BDS by supporting service providers including strengthening support institutions, enabling access to information about BDS and improving MSMEs awareness about opportunities presented by BDS.
- Improve the supply and demand for BDS with various incentive schemes and make information available in English and Somali.
- Create awareness creation among MSMEs of availability and usefulness of BDS especially in technology and innovation.

4.7 Enable MSME Access to Land, Energy and Physical Infrastructure

Overview: MSME development is constrained by lack of access to land, affordable and reliable energy supply and physical infrastructure. Government intends to address MSME need to access land resources which varies depending on the nature of individual subsector where these enterprises operate. Access to and affordability of energy resources is a cross cutting constraint that impacts most MSME in Somaliland. Energy, including electricity, remains very expensive and inaccessible and is a major bottle neck to operations of MSMEs. While Government does not directly participate in supply of energy services, it will liaise closely with private sector ESPs to ensure MSME access to affordable energy services, including electricity. Lack of other key infrastructure including roads, air transportation services, marine services, common facilities such as cold storage services and others also remain a challenge to MSMEs which will be addressed through ongoing reforms and government interventions.

Challenges to be Addressed: Lack of access to land, energy and physical infrastructure have been identified as a major challenge for MSMEs. Land management challenges abound and MSMEs are unable to access suitable and affordable land resources. Access to energy resources that are affordable is also a challenge to MSMEs. The cost of electricity in Somaliland is one of the most expensive in the sub-region and this makes Somaliland based enterprises uncompetitive. Access to other infrastructure, including transportation services, water services, irrigation facilities, and others is also a major constraint for MSMEs

Key Strategies:

- Government of Somaliland will prioritize implementation of interventions geared towards enabling MSME access to land. This will be achieved through improvements in legal and regulatory frameworks critical to management of land resources. Government will also support identification of unencumbered land across the different regions of Somaliland to enable establishment of common user facilities accessible to MSMEs including workshops, warehouses, markets and others.
- Government will strengthen efforts to improve the regulatory framework for the energy sector. The recent enactment of the Electric Energy law has advanced Government's plans to improve the energy sector framework and to encourage efficient production and supply of electricity to MSMEs and other users. Government will facilitate establishment of common facilities for MSMEs which can easily be connected to reliable power supply. Government will also plan to ensure availability of suitable space to enable MSMEs operations in the proposed special economic zones and industrial parks, which may be well served with power and water supply, within the Berbera corridor and across the country.
- Government will aim to expedite expansion of critical infrastructure including roads, air services, marine services and others to facilitate operation of MSMEs, especially those operating in high potential subsectors. Some of the priority areas to be addressed by government includes: enabling improvement of roads, air transport services and telecommunications to link production centers to both local and foreign markets, enabling creation warehouses, markets and cold storage facilities targeted at

MSMEs, enabling public private partnerships regarding creation of MSME focused infrastructure, providing water and sewerage services, marine transportation and others.

5.0 Policy Implementation Arrangements

Effective implementation of any policy depends on clarity of assigning responsibilities and roles to different stakeholders. It also depends on strengthening stakeholder capacities to support effective policy implementation. This facilitates smooth operationalization of programs and projects with clear demarcation of levels of accountability. Since MSMEs cut across institutional mandate of various government ministries and executive agencies, local authorities, various private sector agencies, different development partners and range of NGOs, coordination is of critical importance.

- Facilitate strengthening and networking of service providers of MSMEs

5.1 Role of the Government

The Government's primary role is to create a conducive macroeconomic environment that will allow MSMEs to emerge, survive and grow. In addition, the government has the responsibility of putting in place the requisite infrastructural facilities which will provide a basic support for the growth of the sector.

There is great need to develop entrepreneurship through education and training. The Government will therefore promote consultations and partnership with the private sector, and this will be achieved by ensuring appropriate representation of MSME relevant issues on the agenda of the NDP2 through ESCOM discussions.

5.2 Role of the Ministry of Trade, Industry and Tourism

The Ministry of Trade, Industry and Tourism (MoTIT) has the overall responsibility for coordinating the implementation of the MSME Policy. A MSME Forum or Committee to coordinate policy implementation will be established at the Ministry. The Ministry will also function as the Secretariat of the MSME Forum which is expected to play a lead role in

MSME implementation, and to publish the Annual MSME policy implementation Report that will include information on the status of the MSME sector.

As part of policy implementation, the Ministry of Trade, Industry and Tourism will identify high potential sub-sectors of the economy and provide support, incentives and encouragement to MSMEs in the identified sub sectors. MSME selection criteria will include: potential for value addition especially based on use of local raw materials, export orientation, creation of forward and backward linkages in the economy, potential to strengthen economic activity in rural areas and to uplift disadvantaged groups and the poor, technologically driven innovative products and employment generation.

5.3 Role of Private Sector

Effective implementation of the MSMEs requires close coordination of the business community hence the need to strengthen existing Business Membership Organisations (BMOs) and to create new ones where necessary. The private sector has assumed the leading role in carrying out direct investment in industries. Given this role; they are expected to be the major driver of the MSME sector and to mobilize resources, implement projects, manage operations and in so doing ensure that the policy is put into effective implementation. Furthermore, the private sector will, through their constituencies provide BDS which will foster the creation of a competitive MSME sector. Through their associations they will strengthen the representation of MSMEs to promote advocacy in the respective dialogue with the government and ESCOM meeting.

5.4 Role of NGOs and Development Partners

NGOs and development partners are involved in key areas of intervention that are covered in this policy. They provide finance for micro finance operations, physical infrastructures; capacity-building of the MSME institutions and various activities intended to create a favorable environment for the MSME development. Development partners are expected to design and implement sustainable interventions especially in the financial and non-financial services for the MSMEs in compliance with the principles stated in this policy.

6.0 Policy Monitoring and Evaluation

Establishing a coordinating framework for implementation of MSME policy will be critical to successful policy implementation. The proposed MSME Forum or Committee, based at the Ministry of Trade, Industry and Tourism, will function as the MSME policy monitoring and evaluation body. The Committee will utilize the PPD framework to ensure inclusive participation of all key stakeholders in the M&E initiative.

The Committee will conduct annual progress review meetings to assess the policy implementation progress and its outcomes. Periodic MSME surveys will be undertaken to assess development of MSME sector, their challenges, issues and constraints to enable Government of Somaliland formulate more effective MSME support policies and interventions.

MSME monitoring and evaluation matrix is identifying agreed implementation strategies and actions, implementation timelines, expected outcomes, method of verification and information sources, and institutional responsibility will be prepared by the Ministry of Trade, Industry and Tourism as soon as the policy is endorsed by Government. The matrix will constitute the primary tool or basis for the monitoring and evaluation framework. Coordination of MSME policy monitoring and evaluation will be closely aligned with the NDP2 coordination framework and outcomes of monitoring and coordination will inform adjustment in MSME implementation arrangements.

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